

MCKESSON

Empowering Healthcare

2003 Merrill Lynch Global Healthcare Conference

“Innovation Still Counts”

February 5, 2003

John Hammergren

**Chairman and
Chief Executive Officer**

Safe Harbor Clause

Some of the information in this presentation may constitute forward-looking statements which are subject to various uncertainties and could cause actual results to differ materially from those projected or implied. These uncertainties are described in the Company's reports and exhibits filed with the Securities and Exchange Commission.

Agenda For Today's Presentation

- **Market and Strategy Overview**

- **Business Unit Review**

- **Focus on Innovation**

- **Summary**

McKesson Investment Highlights

- **Positive momentum continues in Pharmaceutical Solutions and Information Solutions: revenue growth and margin expansion**
- **Turnaround underway in Medical-Surgical Solutions**
- **Demographics, economics and public policy drive demand for McKesson products and services**

Largest Healthcare Services Company in North America

Pharmaceutical Solutions

- ◆ \$46 billion in revenues
- ◆ US and Canadian pharma distribution
- ◆ Hospital and retail automation
- ◆ Pharmacy outsourcing
- ◆ Health Solutions

Medical-Surgical Solutions

- ◆ \$2.7 billion in revenues
- ◆ Hospitals
- ◆ Physician offices
- ◆ Nursing homes
- ◆ Long-term care facilities

Information Solutions

- ◆ \$1 billion in revenues
- ◆ Most comprehensive HIT product line: software, services, outsourcing
- ◆ New clinical offering includes decision support, order entry, digital medical imaging and nurse documentation

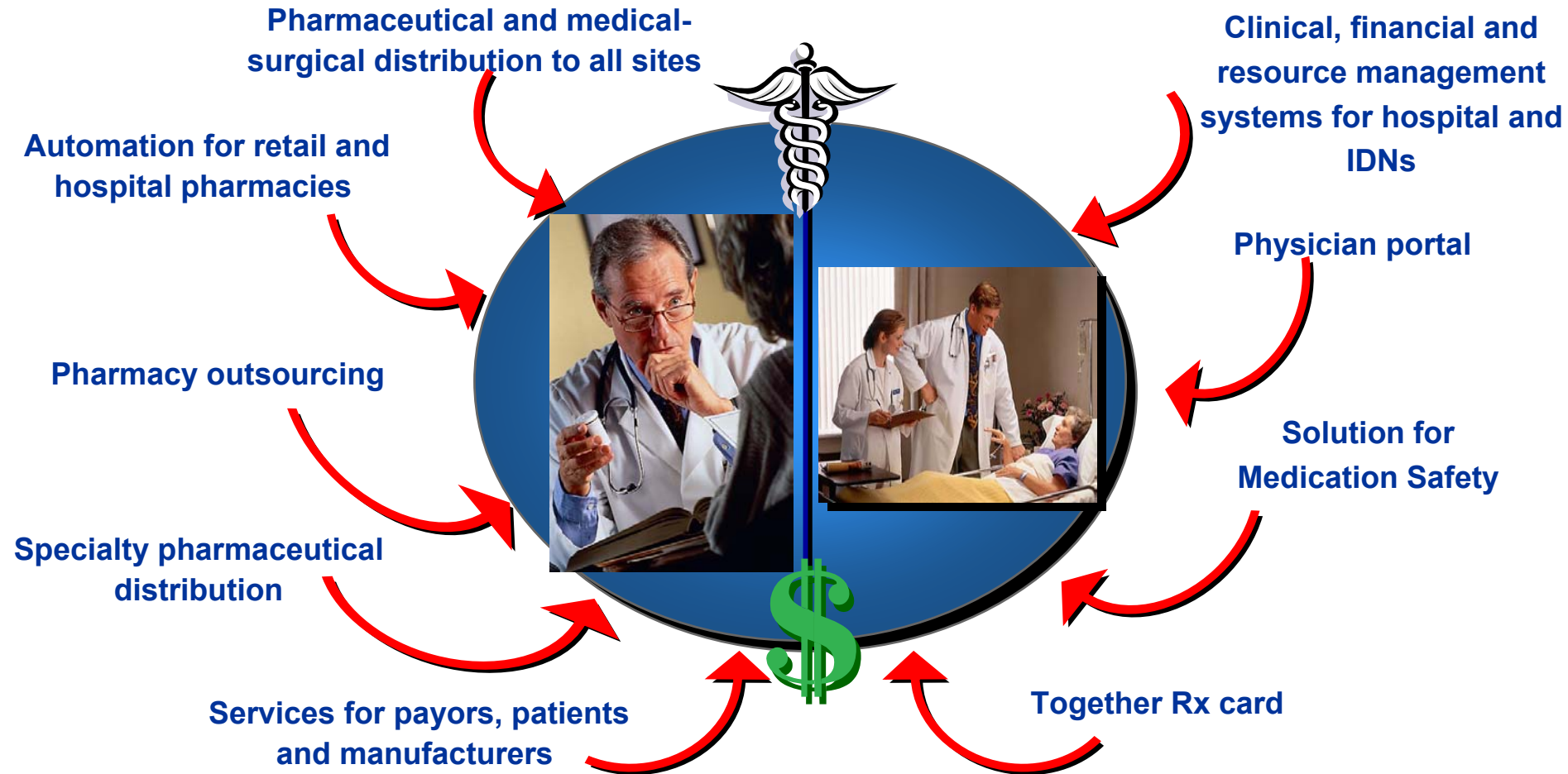
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Customers for Life

- **Create long-term customer relationships based on ROI and quality improvements**
- **Penetrate relationship by selling additional products and services**
- **Innovate with new offerings that address emerging healthcare challenges faster than the competition**

McKesson Solutions Improve Quality and Reduce Cost



Unique Conversations with Customers At Higher Levels

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Favorable Market Factors Drive McKesson Growth

- Aging population consumes more drugs, supplies
- More sophisticated population demands higher quality
- Employer and government focus on higher quality
- Costs and incentives drive increased use of generics
- Pharmacist and nurse shortage widens
- Costs and quality concerns lead to increased disease management
- Expanding pipeline of higher-tech drugs

Strong Q3 FY03 Results -- GAAP

	<u>3rd Quarter</u>		
	<u>FY03</u>	<u>FY02</u>	
<i>(\$ in millions, except EPS)</i>			
Revenues	\$10,914	\$9,627	+13%
Operating Profit			
Pharmaceutical Solutions	\$ 241	\$ 200	+20%
Medical-Surgical Solutions	18	26	- 32%
Information Solutions	15	15	----
Net Income	\$ 134	\$ 109	+23%
Diluted Earnings per Share	\$ 0.46	\$ 0.37	+24%

Note: Excludes sales to customers' warehouses

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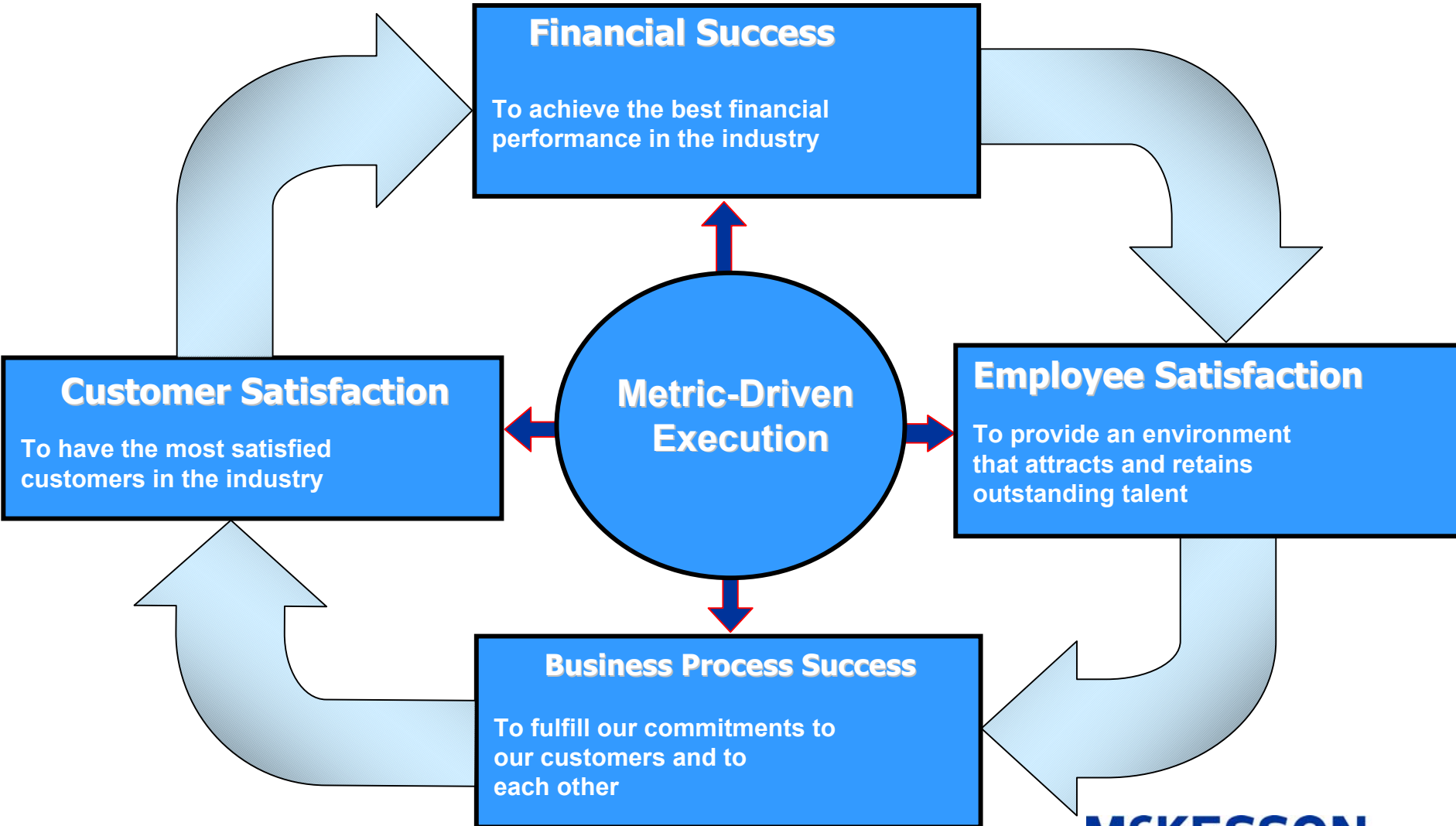
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Business Metrics Drive Results



Supply Businesses Across All Sites

McKesson
Pharmaceutical

- Distribution
- Repackaging
- Informatics
- #1 in Canada
- #1 in Mexico

McKesson
Automation

- Retail Pharmacy
- Hospital / Institutional
- Robots and cabinets
- SupplyScan

McKesson Health
Solutions

- Medical Management Software and Services
- Specialty Pharmaceutical Services

McKesson
Medication
Management

- Pharmacy and Medication Management Services

McKesson
Medical Surgical

- Primary Care
- Extended Care
- Acute Care



End-to-End Continuum of Services

Multiple Points of Leverage

Comprehensive North American Distribution

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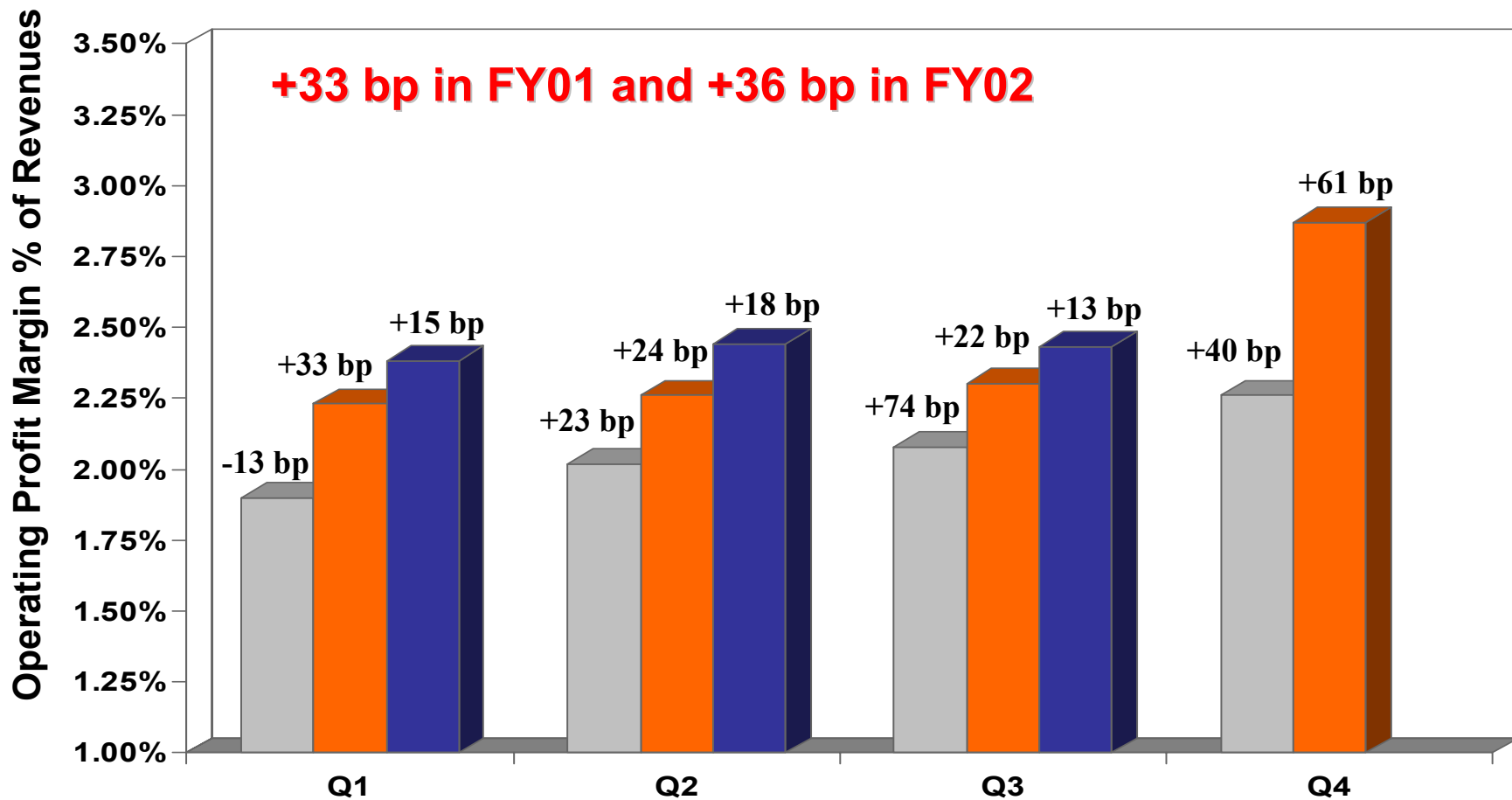
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Pharmaceutical Solutions: Solid Growth and Expanding Margins

- Q3 U.S. pharmaceutical revenues up 14%, warehouse sales up 12%
- Generic sales slow market growth but drive margin expansion
- Q3 operating margin up 13 bp
- McKesson Canada revenues up 17%

Pharmaceutical Solutions Operating Profit Margin Momentum

10 Consecutive Quarters of Y-O-Y Operating Margin Expansion



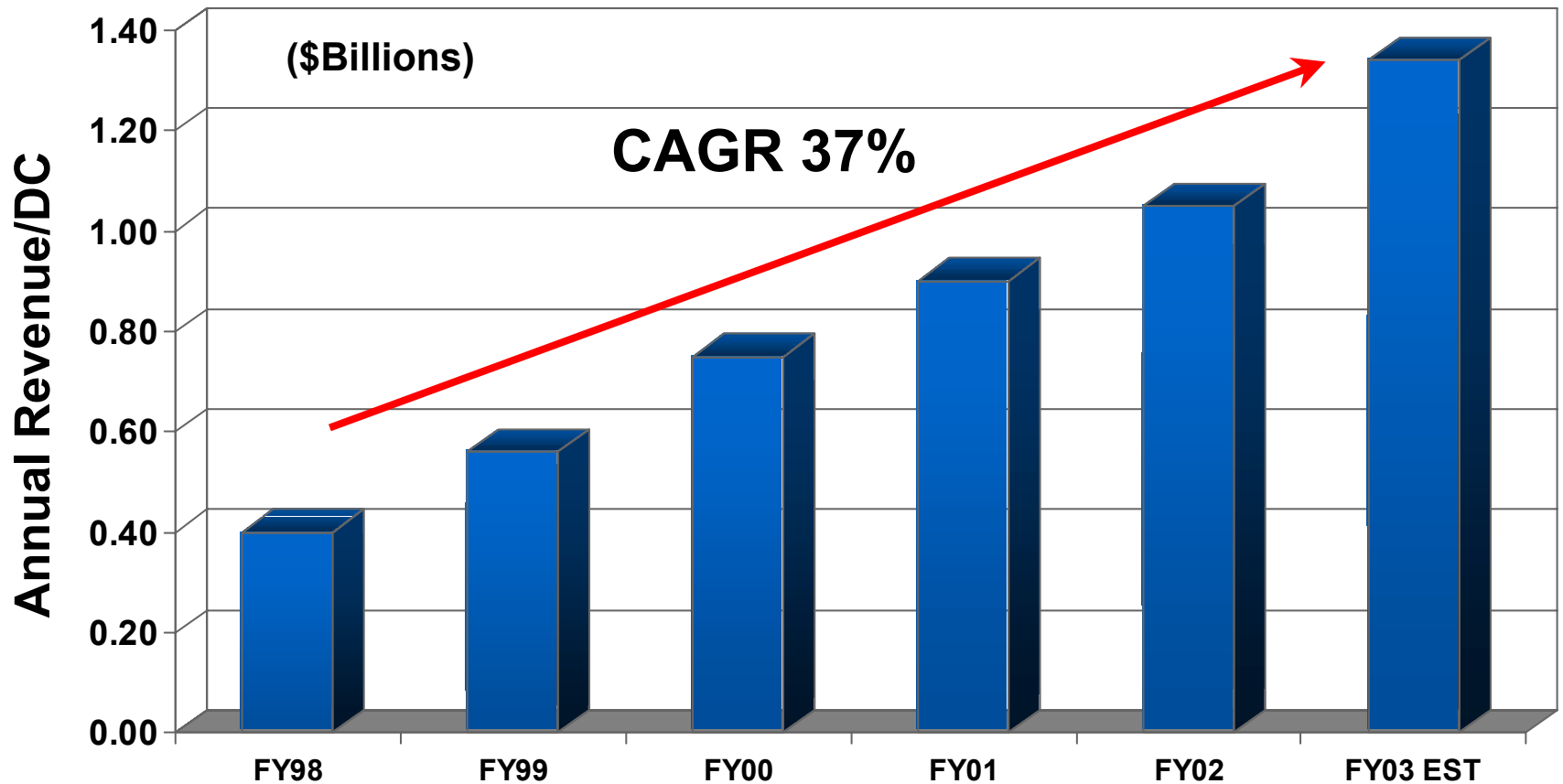
Note: Excluding impact of warehouse sales

■ FY01 ■ FY02 ■ FY03

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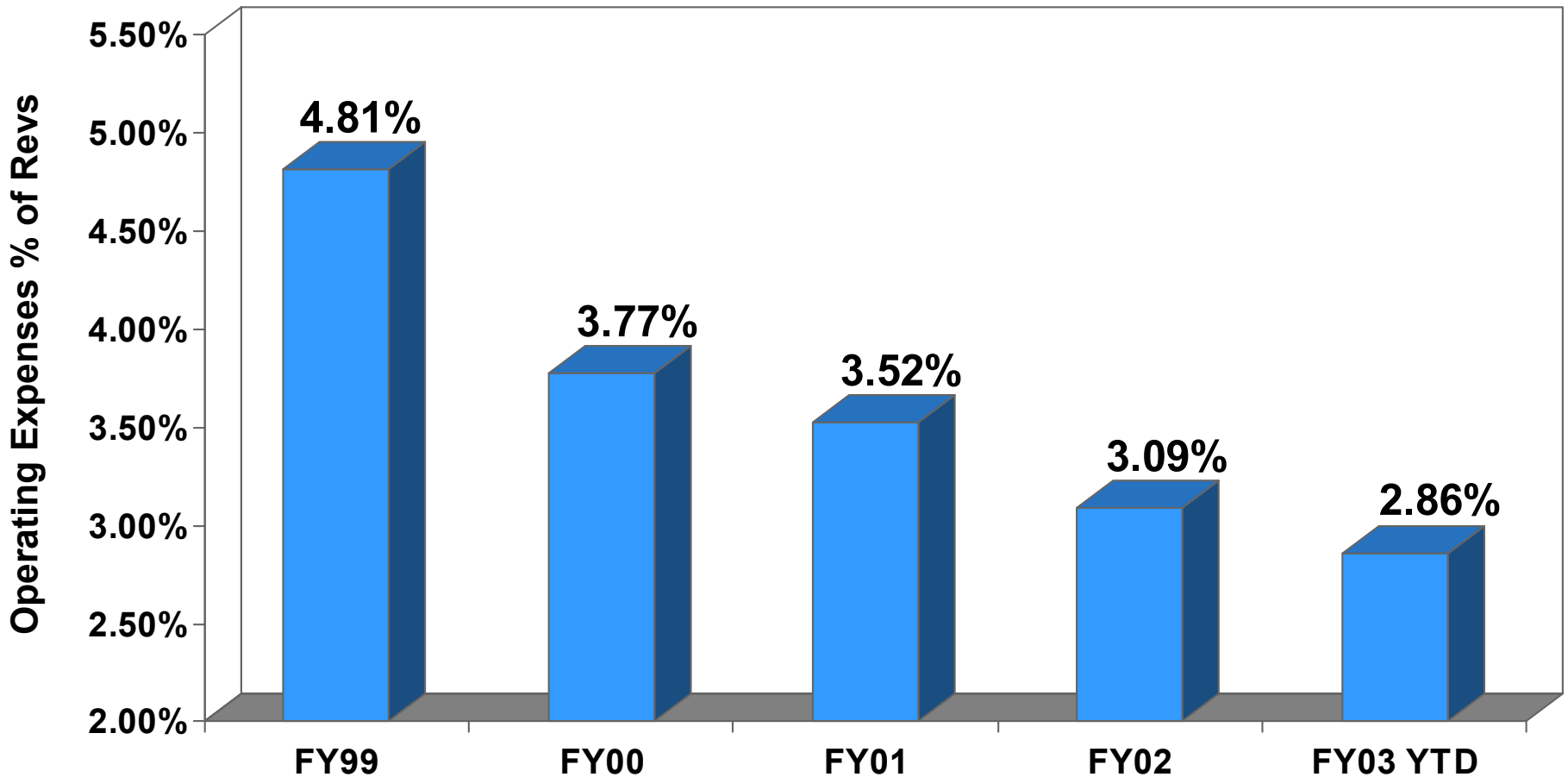
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Distribution Center Productivity Increases Provide . . .



Note: Excludes Alaska and Hawaii and warehouse sales

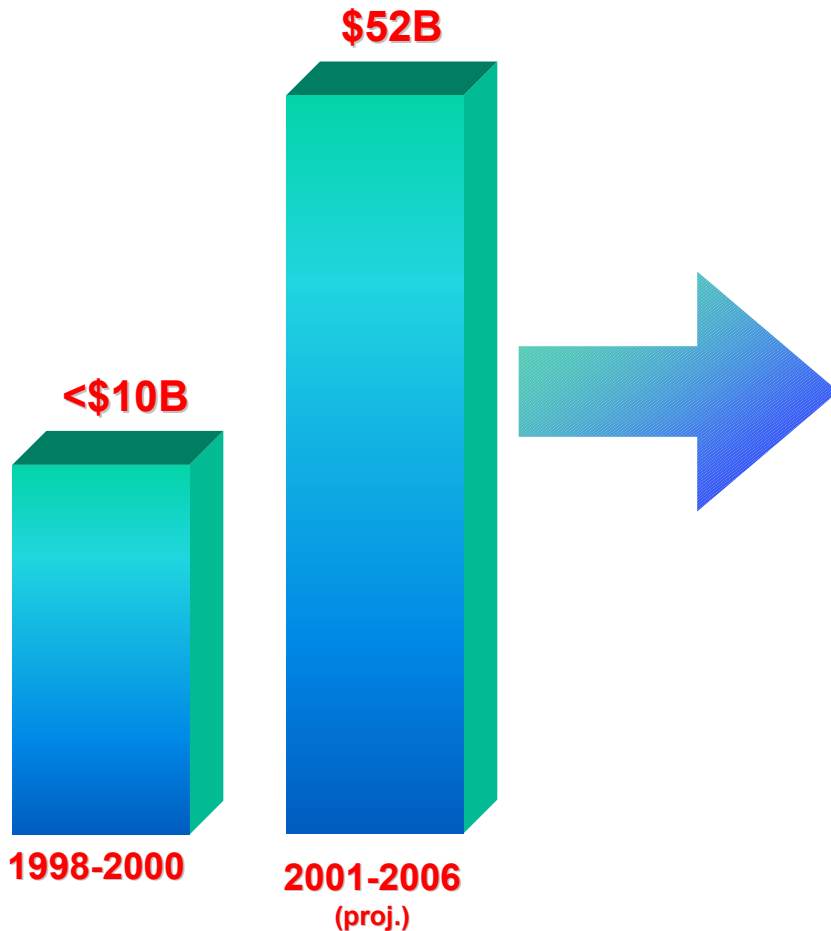
... Significant Operating Leverage



Note: Excludes impact of warehouse sales

Majority of Generics Opportunity Remains Ahead

Branded pharmaceuticals going off patent



Is driving generic growth and margin expansion

- McKesson OneStop program
- 20,000 total pharmacy outlets
- Generic Rx GP\$ and margin higher than that of branded Rx

Pharmaceutical Solutions: Levers to Expand Operating Margins

Inventory Profit

Branded product sourcing

Price increases

Special programs

Collaborative agreements

Generic product sourcing

Related products and services

McKesson Canada

Nadro

Specialty Pharmaceuticals

Automation

Repackaging

Disease Management

Pharmacy Outsourcing

Payor Services

Zee Medical

Pharmaceutical Environment Remains Positive

- **Rapid penetration of generics dampens market growth to 11-14% but creates new profit opportunities**
- **Republican majority increases probability of Medicare drug benefit through private sector**
- **Drug price increases continue**
- **Relationships with manufacturers are cooperative and collaborative**

Medical-Surgical Solutions Turnaround Underway

- New leadership has stabilized the business
- Near-term focus on completing DC network consolidation and ERP system implementation
- Longer term: realize benefits of consolidation and ERP system, improve processes and increase McKesson brand sales



**Gradual improvement expected
throughout FY04**

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Information Solutions Market Leadership Strategy

Financial Strength

- ◆ \$1 billion revenues
- ◆ 15% of revenue goes to R&D investment

Customer Reach

- ◆ 60% of U.S. health systems
- ◆ 82% of covered lives in America
- ◆ Large European HIT business

Solution Portfolio

- ◆ Broadest product line
- ◆ Best-of-class
 - Software
 - PACS
 - Services
 - Outsourcing
 - Consulting
 - Content
 - Connectivity

Employee Expertise

- ◆ 6,300 employees
- ◆ 1,250 R&D
- ◆ 850 customer support
- ◆ 500 clinicians

Information Solutions Market Momentum Continues

- Q3 revenues up 19%, software up 63%
- Q3 operating profit flat due to international loss provision, offset in part by positive adjustment to customer settlement reserve
- Horizon Expert Orders GA 12/9/02
 - 4 customers in implementation currently
 - 12 in implementation by fiscal year end

Information Solutions Positive Outlook

- **Growing demand for clinical products**
- **McKesson positioned for clinical leadership**
- **Margin expansion drivers**
 - **Increasing software backlog and revenues**
 - **Leveraging existing infrastructure**

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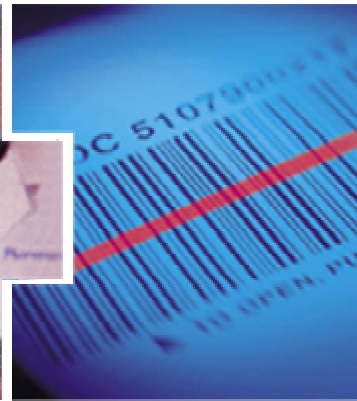
Closed Loop Medication Management



PRESCRIBING



TRANSCRIBING



DISPENSING



ADMINISTERING

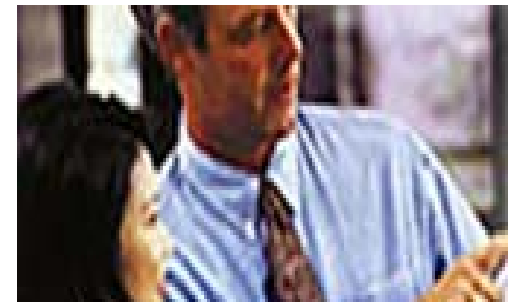


MONITORING



DISTRIBUTION

Integrated Solution



CONSULTING

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SupplyScan: Closed Loop Supply Management

- Bar code scanner automates tracking, billing and re-stocking of medical-surgical supplies by nurses
- Developed for HCA in 2001, launched into broader market in 2002
- Live in more than 180 hospitals in less than 2 years
- Large under-penetrated market
- Integrated with medical-surgical and information solutions



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Closed Loop Patient Care Management

The screenshot displays a 'Physician Portal' interface. On the left, the 'EDIT Results Viewer' shows a table of lab results. On the right, a line graph plots 'Temperature' over time from 02/03/2001 to 04/04/2001. Below the graph, two chest X-ray images are visible.

RsltLvl	Collected	Ordered	Item (Order Number)	Dept Status	Priority
<input type="checkbox"/>	03/14/01 2042	03/14/01 2026	CHEMISTRY PANEL (41)	Done	ROUTINE
<input type="checkbox"/>	03/14/01 2040	03/14/01 2026	ARTERIAL BLOOD GAS (42)	Done	STAT
<input type="checkbox"/>	03/14/01 2035	03/14/01 2036	CBC WITH DIFF (43)	Partial	STAT
<input type="checkbox"/>	03/12/01 2123	03/12/01 2223	COMPLETE BLOOD COUNT (5)	Done	STAT
<input type="checkbox"/>	03/13/01 0557	03/13/01 0610	CBC WITH DIFF (9)	Done	ROUTINE
<input type="checkbox"/>	03/13/01 0605	03/13/01 0628	CBC WITH DIFF (11)	Done	ROUTINE
<input type="checkbox"/>	03/13/01 0903	03/13/01 0904	SMAC (12)	Done	STAT
<input type="checkbox"/>			ARTERIAL BLOOD GAS (13)	Done	STAT
<input type="checkbox"/>			CHEST PA LAT 71020	RPT READ	ROUTINE
<input type="checkbox"/>			CULTURE, RESPIRATORY	Done	ASAP

Temperature (02/03/2001 00:00 - 04/04/2001 16:04)

Temperature

Date Vital was taken

Pitt ID: 31231 58Y Female

Ac: 2500019 Lossy 3:1

07 17 01

Mag: 36%

Local intranet

Discrete Data

- Lab
- Vitals - I&Os

Medical Images

Documents

- History & Physical
- Discharge Summary

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FY00 to FY03 Achievements

- **Highest revenue growth and largest operating profit margin expansion in industry for Pharmaceutical Solutions**
- **Major improvement in customer satisfaction and more new product introductions combined with solid operating margin expansion for Information Solutions**
- **Solid EPS growth despite erosion in Medical-Surgical Solutions operating profit**

Goals for Delivering Sustained Financial Performance

- Industry-leading solutions and margin expansion in Pharmaceutical Solutions
- Clinical leadership, continued new product innovation and margin expansion in Information Solutions
- Return to historical operating margins in Medical-Surgical Solutions



Value Creation for Customers and Shareholders

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